



STATE OF ILLINOIS

HEALTH FACILITIES AND SERVICES REVIEW BOARD

525 WEST JEFFERSON ST. • SPRINGFIELD, ILLINOIS 62761 • (217) 782-3516 FAX: (217) 785-4111

DOCKET NO: H-11	BOARD MEETING: December 10, 2012	PROJECT NO: 12-076	PROJECT COST: Original: \$3,879,057
FACILITY NAME: Chicago Surgical Clinic, Ltd		CITY: Arlington Heights	
TYPE OF PROJECT: Substantive			HSA: VII

PROJECT DESCRIPTION: The applicants propose to establish an Ambulatory Surgery Treatment Center (ASTC), in Arlington Heights. The estimated cost of the project is \$3,879,057.

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- The applicants propose to establish a multi-specialty Ambulatory Surgery Treatment Center (ASTC), in 7,700 GSF of space in Arlington Heights
- The estimated cost of the project is \$3,879,057.
- **The anticipated completion date is April 30, 2013.**

WHY THE PROJECT IS BEFORE THE STATE BOARD:

- The applicant is proposing the establishment of a health care facility as defined by the Act.

PURPOSE OF THE PROJECT:

- To improve the healthcare and well-being of the market area population to be served.

NEED:

- To establish an ambulatory surgical treatment center an applicant must
 - Provide the surgical specialties to be provided;
 - Identify the proposed geographical service area;
 - Provide evidence that within two years after project completion the facility will be operating at 1,500 hours per operating room;
 - Identify the impact on other area facilities; and
 - Whether the proposed project is a cooperative venture with a hospital.

BACKGROUND

- Chicago Surgical Clinic currently operates a clinic at 201 East Strong Street, Wheeling. The multi-specialty clinic provides Endoscopic, Oral/Maxillofacial, and General Surgery Procedures.
- Chicago Surgical Clinic is not licensed as an ASTC.
- Upon project completion, the Wheeling facility will function in an administrative capacity, leaving the clinical procedures to be performed at the newly-established Arlington Heights facility.

COMPLIANCE ISSUES:

- The applicants have no compliance issues.

PUBLIC HEARING/COMMENT:

- A public hearing was held on Thursday, October 11, 2012, at the Arlington Heights Village Hall. 27 individuals registered their attendance, with oral /written presentations registering 16 in support and 3 in opposition to the proposed project. The project file contains three impact letters from Northwest Community Hospital, Arlington Heights, and Presence Health Hospitals, and Northwest Surgicare, Ltd each indicating the proposed project will have a negative impact on their facilities.
- **Bruce K. Crowther, President & CEO, Northwest Community Hospital, stated "As you**

know, we at Northwest Community Hospital have served the surgical needs of these patients for years. This project negatively impacts our program and ability to serve our patients."

- **Presence Health stated** *"Thank you for your letter of June 26, 2012, informing us of your plans to develop a new ASTC at 129 W. Rand Road in Arlington Heights. As you know, the purpose and intent of such letters, according to the rules of the Illinois Health Facilities and Services Review Board, is to determine the impact of new services on existing providers. This response summarizes the potential impact of your project on Presence Health hospitals. After reviewing the surgery and GI lab data at our hospitals, we must conclude that the development of this proposed new ASTC in Arlington Heights would have a significant negative impact on our hospitals.*

The physicians of Chicago Surgical Clinic, Ltd. are on the medical staff of three Presence Health hospitals, Holy Family Medical Center, Resurrection Medical Center, and Our Lady of the Resurrection Medical Center. These physicians perform both surgeries and GI lab procedures at each of these hospitals, the vast majority of which are outpatient procedures. All together, these physicians have performed over 1,000 procedures in the last 18 months at these three Presence Health hospitals. The impact is particularly significant at Holy Family Medical Center, where the physicians of Chicago Surgical Clinic, Ltd. represent nearly 20% of the surgery and GI cases performed at the hospital, all of which were outpatient procedures. Indeed, the types of procedures planned to be done at the proposed new ASTC, as listed in your letter, are included in the procedures currently performed at our hospitals. Presence Health hospitals and the Presence Health ambulatory surgery center all have the capacity to perform any and all surgery and GI lab procedures planned to be performed at the proposed new ASTC.

Your letter states that the new ASTC will have minimal impact on existing facilities because the majority of the patients who will be treated at that proposed facility are not currently using the existing facilities in the area. Given the above facts, we do not understand how that statement can be true, especially in the case of Holy Family Medical Center, which is located only 6.8 miles away and 13 minutes from the proposed ASTC."

- **Fran Sokash RVP stated "Northwest Surgicare, Ltd.** *"provides similar outpatient surgery services at its ambulatory surgery center located at 1100 W. Central Road in Arlington Heights, IL (the "NW Center"). The NW Center has capacity for additional outpatient surgical volume. The NW Center is located next to Northwest Community Hospital and is 4.28 miles from the proposed ASC. Your letter of June 26, 2012 states that the proposed ASC will have minimal impact on existing centers because the majority of the patients who will be treated at the proposed ASC are not currently using any existing facilities in the area. As the NW Center is only 4.28 miles from the proposed ASC, it is difficult to understand how that statement can be true."*

FINANCIAL AND ECONOMIC FEASIBILITY:

- The applicant notes the project will be funded through a combination of cash and securities, (\$1,510,057) cash expenditures (\$119,000), loans (\$2,000,000), and the net book value of existing equipment (\$250,000). Reviewed financial statements were provided.
- **Alexander Bogachkov CPA stated** *"please be informed that being engaged as a Certified Public Accountant Chicago Surgical Clinic I have been preparing business and individual income tax returns for Dr. Levin for more than ten years. Based on the information provided by Dr, Levin the Chicago Surgical Clinic, Ltd has access to funds totaling \$1,510,057 in the form of bank accounts and investment funds used toward the construction of the new ASTC facility."*

- **CitiBank stated** “As the primary financial institution for Chicago Surgical Clinic, Ltd., we can confirm that Chicago Surgical Clinic, Ltd. has a strong credit rating with our bank and a loan request of up to \$2,000,000.00 would be favorably considered.”

CONCLUSIONS:

- The proposed project seeks to establish a multi-specialty ASTC in Arlington Heights. The applicant proposes to provide Oral/Maxillofacial, Endoscopic, and General Surgery surgical services.
- The applicant notes upon project completion, the Wheeling facility will be utilized in an administrative capacity, and all clinical services will be moved to newly established Arlington Heights facility.
- **The applicant provided no Safety Net or Charity Care information. The applicant identifies itself as an independent for-profit surgical center, and reports no historical charity care or Medicare data.**
- The applicant addressed a total of 18 review criteria and did not meet the following:

State Board Standards Not Met	
Criteria	Reasons for Non-Compliance
1110.1540 (e) Impact on Other Facilities	Board Staff identified 5 hospital and 13 ASTCs underperforming in their surgical service area.
1110.1540 (f) Establishment of New Facilities	Board Staff identified 5 hospital and 13 ASTCs underperforming in their surgical service area.
1120.130(a) Financial Feasibility	The applicants reported substandard viability ratios for this criterion.
1120.140(c) Reasonableness of Project Costs	The applicant has exceeded the acceptable State Standards for Contingencies and Architectural and Engineering Fees.

STATE BOARD STAFF REPORT
Chicago Surgical Clinic, Ltd. – Arlington Heights
PROJECT #12-076

APPLICATION SUMMARY	
Applicants(s)	Chicago Surgical Clinic, Ltd.
Facility Name	Chicago Surgical Clinic, Ltd.
Location	Arlington Heights
Application Received	August 17, 2012
Application Deemed Complete	August 30, 2012
Can Applicants Request Deferral?	Yes

I. The Proposed Project

The applicant proposes to establish a multi-specialty ASTC in 7,700 GSF of space in Arlington Heights. The proposed facility will contain three procedure rooms, three level I, and 3 level II recovery stations. The applicant will provide Oral/Maxillofacial, General and Endoscopic surgical services. The cost of the project is \$3,879,057.

II. Summary of Findings

- A. The State Board Staff finds the proposed project does not appear to be in conformance with the provisions of Part 1110.
- B. The State Board Staff finds the proposed project does not appear to be in conformance with the provisions of Part 1120.

III. General Information

The applicant is Chicago Surgical Clinic, Ltd. The current owner of the building is Dr. Sam Akmakjian, M.D., and Chicago Surgical Clinic Ltd., is under contract to purchase the site. The proposed new facility will be located at 129 West Rand Road, Arlington Heights, approximately 6.8 miles from the current site. Chicago Surgical Clinic, Ltd., is the operating entity/licensee for the facility. The proposed replacement ASTC will be located in suburban Cook County, HSA-7A.

The project is substantive and subject to Part 1110 and Part 1120 review. Obligation will occur after permit issuance. **The anticipated project completion date is April 30, 2013.**

Tables One and Two display information pertaining to hospitals and ASTCs in a 30-minute travel radius that provide surgical/procedure-based services. Data includes authorized ORs/Procedure rooms, and travel times from the applicants'

facility and respective utilization rates. Data on authorized suites and utilization rates were obtained from IDPH's 2011 Hospital and ASTC profiles and travel times were obtained from Map Quest. The data in the table is sorted by travel time.

Of the providers identified in Table One, 7 out of 12 hospitals (58.3%), achieved the State Board's target surgical utilization (1,500 hrs) for 2011. Table Two shows 3 (18.7%), out of 16 ASTC's in the service area operating at the prescribed operational capacity.

TABLE ONE Hospitals within the Proposed GSA Chicago Surgical Clinic, Ltd. Arlington Heights							
Facility Name	City	Adjusted Time	Distance	# of OR's	Total Surgical Hours	# of OR's Justified	Met State Standard?
Northwest Community Hospital	Arlington Heights	11	4	14	22,415	15	Yes
Glenbrook Hospital	Glenview	14	8.1	10	12,221	9	No
Holy Family Hospital	Des Plaines	16	6.7	2	2,005	2	Yes
Alexian Brothers Medical Center	Elk Grove Village	17	10.6	11	23,229	16	Yes
Advocate Good Shepherd Hospital	Barrington	20	10	12	19,131	13	Yes
Advocate Lutheran Hospital	Park Ridge	21	9.1	24	32,939	22	No
Advocate Condell Medical Ctr.	Libertyville	21	10.3	12	20,063	14	Yes
St. Alexius Medical Center	Hoffman Estates	23	13.4	11	23,229	16	Yes
Adventist Glen Oaks Medical Center	Glendale Heights	28	17.9	5	2,194	2	No
Elmhurst Memorial Hospital	Elmhurst	28	19.4	15	21,163	15	Yes
Skokie Hospital	Skokie	29	14.6	10	10,787	8	No
Resurrection Medical Center	Chicago	29	18.3	12	12,274	9	No
Number of surgical hours, rooms taken from IDPH 2011 Hospital Questionnaire Time and Distance taken from Map Quest and adjusted per 77 IAC 1100.510 (d)							

TABLE TWO ASTC within the Proposed GSA Chicago Surgical Clinic, Ltd. Arlington Heights								
Name	City	Type	Time	Distance	# of OR's	Total Surgical Hours	# or OR's Justified	State Standard Met?
Northwest Community Day Surgery	Arlington Heights	Multi	11	4.1	10	9,913	7	No
Northwest Surgicare Healthsouth	Arlington Heights	Multi	11	4.2	4	2,972	2	No
Regenerative Surgical Ctr.	Des Plaines	Limited	14	6.6	3	1,026	1	No
Illinois Hand & Upper Extremity Ctr.	Arlington Heights	Single	14	8.3	1	N/A^	N/A^	No
The Glen Endoscopy Ctr.*	Glenview	Single	17	9.1	3*	3,280	3	Yes
Ravine Way Surgery Ctr.	Glenview	Single	17	9.6	3	2,724	2	No
Golf Surgical Ctr.	Des Plaines	Multi	19	8.6	5	4,671	4	No
Hart Road Pain & Spine Institute	Barrington	Limited	23	10.3	3	N/A^	N/A^	No

TABLE TWO
ASTC within the Proposed GSA
Chicago Surgical Clinic, Ltd. Arlington Heights

Name	City	Type	Time	Distance	# of OR's	Total Surgical Hours	# or OR's Justified	State Standard Met?
Hoffman Estates Surgery Ctr.	Hoffman Estates	Multi	23	13.5	3	4,417	3	Yes
Alden Ctr. For Day Surgery	Addison	Multi	23	14.3	4	1,237	1	No
Ritacca Laser Ctr.	Vernon Hills	Limited	24	11.4	2	967	1	No
Hawthorne Surgery Ctr.	Vernon Hills	Multi	24	11.4	3	N/A^	N/A^	No
Apollo Health Ctr.	Des Plaines	Multi	25	10.2	2	N/A^	N/A^	No
Illinois Sports Medicine & Orthopedic Surgery Ctr.	Morton Grove	Limited	25	12.2	4	3,180	3	No
Grand Oaks Surgery Ctr.	Libertyville	Single	26	12.7	1	221	1	Yes
Advantage Health Care Ltd.	Wood Dale	Single	26	15.3	2	591	1	No

Time and Distance determined by MapQuest and adjusted per 1100.510 (d)

Utilization information taken from CY 2010 Annual Questionnaires

* Procedure Rooms Only/ Outpatient Endoscopy Center

^Newly Established Facility, Project not Completed/Data Unavailable

Summary of Support and Opposition Comments

A public hearing was held on Thursday, October 11, 2012, at the Arlington Heights Village Hall. 27 individuals registered their attendance, with oral /written presentations registering 16 in support and 3 in opposition to the proposed project. The project file contains two impact letters from Northwest Community Hospital, Arlington Heights, and Presence Health Hospitals, each indicating the proposed project will have a negative impact on their facilities.

IV. The Proposed Project - Details

The applicants propose to relocate an existing multi-specialty Ambulatory Surgery Treatment Center (ASTC), located at 201 East Strong Street, Wheeling, and establish a replacement multi-specialty ambulatory surgery treatment center (ASTC) in 7,700 GSF of space at 129 West Rand Road, Arlington Heights, 6.8 miles away. The replacement facility will consist of three procedure rooms (OR), and six recovery stations. The estimated cost of the project is \$3,879,057. The applicants supplied no Charity Care Information for Chicago Surgical Clinic, Ltd.

V. Project Costs and Sources of Funds

Table Three shows the project costs and funding sources. The total cost of the project is \$3,879,057, and these costs are considered clinical. The applicant states the source of funds will be from cash and securities totaling \$1,510,057, cash

expenditures totaling \$119,000, the net book value of existing equipment totaling \$250,000, and loans/mortgages totaling \$2,000,000.

TABLE THREE Project Costs and Source of Funds Project 12-076, Chicago Surgical Clinic, Ltd., Arlington Heights			
Use of Funds	Clinical	Non -Clinical	Total
Preplanning Costs	\$11,000	\$0	\$11,000
Site Survey/Soil Investigation	\$1,000	\$0	\$1,000
Site Preparation	\$57,000	\$0	\$57,000
New Construction Contracts	\$1,500,000	\$0	\$1,500,000
Contingencies	\$300,000	\$0	\$300,000
Architectural/Engineering Fees	\$265,000	\$0	\$265,000
Consulting & Other Fees	\$165,000	\$0	\$165,000
Moveable & Other Equipment	\$250,000	\$0	\$250,000
New Equipment	\$206,157	\$0	\$206,157
Bond Issuance Expense (project related)	\$15,000	\$0	\$15,000
Net Interest Expense During Construction	\$60,000	\$0	\$60,000
Other Costs to be Capitalized	\$293,900	\$0	\$293,900
Acquisition of Building	\$770,000	\$0	\$770,000
Totals	\$3,879,057	\$0	\$3,879,057
Source of Funds			
Cash & Securities	\$1,510,057	\$0	\$1,510,057
Cash Expenditures Current Outlay	\$119,000	\$0	\$119,000
Net Book Value of Existing Equipment	\$250,000	\$0	\$250,000
Loans/Mortgages	\$2,000,000	\$0	\$2,000,000
Total	\$3,879,057	\$0	\$3,879,057

VI. Cost/Space Requirements

The proposed project is entirely comprised of clinical cost considerations. The definition of non-clinical as defined in the Planning Act [20 ILCS 3960/3] states, “non-clinical service area means an area for the benefit of the patients, visitors, staff or employees of a health care facility and not directly related to the diagnosis, treatment, or rehabilitation of persons receiving treatment at the health care facility.”

The facility is 7,700 gross square feet of clinical space for 2 Surgical Suites, 1 Procedure Room and 6 Recovery Stations.

VIII. Project Purpose, Background and Alternatives – Information Requirements

A. Criterion 1110.230(a) - Background of Applicant

The criterion:

“An applicant must demonstrate that it is fit, willing and able, and has the qualifications, background and character, to adequately provide a proper standard of health care service for the community. [20 ILCS 3960/6] In evaluating the qualifications, background and character of the applicant, HFPB shall consider whether adverse action has been taken against the applicant, or against any health care facility owned or operated by the applicant, directly or indirectly, within three years preceding the filing of the application. A health care facility is considered "owned or operated" by every person or entity that owns, directly or indirectly, an ownership interest. If any person or entity owns any option to acquire stock, the stock shall be considered to be owned by such person or entity (refer to 77 Ill. Adm. Code 1100 and 1130 for definitions of terms such as "adverse action", "ownership interest" and "principal shareholder").”

The applicant provided licensure and certification information as required. The applicant (Chicago Surgical Clinic, Ltd.), provided a licensing information for the Wheeling ASTC in their ownership, and supplied authorization permitting HFSRB and IDPH access to any documents/records to verify licensure and accreditation. The applicants provided all the necessary information required to address this criterion.

B. Criterion 1110.230(b) – Purpose of the Project

The criterion states:

“The applicant shall document that the project will provide health services that improve the health care or well-being of the market area population to be served. The applicant shall define the planning area or market area, or other, per the applicant's definition.

- 1) The applicant shall address the purpose of the project, i.e., identify the issues or problems that the project is proposing to address or solve. Information to be provided shall include, but is not limited to, identification of existing problems or issues that need to be addressed, as applicable and appropriate for the project. Examples of such information include:

- A) The area's demographics or characteristics (e.g., rapid area growth rate, increased aging population, higher or lower fertility rates) that May affect the need for services in the future;
 - B) The population's morbidity or mortality rates;
 - C) The incidence of various diseases in the area;
 - D) The population's financial ability to access health care (e.g., financial hardship, increased number of charity care patients, changes in the area population's insurance or managed care status);
 - E) The physical accessibility to necessary health care (e.g., new highways, other changes in roadways, changes in bus/train routes or changes in housing developments).
- 2) The applicant shall cite the source of the information (e.g., local health department Illinois Project for Local Assessment of Need (IPLAN) documents, Public Health Futures, local mental health plans, or other health assessment studies from governmental or academic and/or other independent sources).
 - 3) The applicant shall detail how the project will address or improve the previously referenced issues, as well as the population's health status and well-being. Further, the applicant shall provide goals with quantified and measurable objectives with specific time frames that relate to achieving the stated goals.
 - 4) For projects involving modernization, the applicant shall describe the conditions being upgraded. For facility projects, the applicant shall include statements of age and condition and any regulatory citations. For equipment being replaced, the applicant shall also include repair and maintenance records."

According to the applicants, the primary purpose of the project is to address the increased health care needs of the targeted population in the service area (HSA-7A). The new facility will be located northwest of the current site, and serve Palatine, Wheeling, north Arlington Heights, Buffalo Grove, Lake Zurich, Long Grove, and Prospect Heights. The applicant notes these municipalities as being underserved by surgical facilities. The applicant also notes the proposed facility will offer

substantial cost savings to the market area, and reduce delays in the actual performance of needed procedures.

C. Criterion 1110.230(c) Alternatives to the Proposed Project

The criterion states:

“The applicant shall document that the proposed project is the most effective or least costly alternative for meeting the health care needs of the population to be served by the project.

- 1) Alternative options shall be addressed. Examples of alternative options include:**
 - A) Proposing a project of greater or lesser scope and cost;**
 - B) Pursuing a joint venture or similar arrangement with one or more providers or entities to meet all or a portion of the project's intended purposes; developing alternative settings to meet all or a portion of the project's intended purposes;**
 - C) Utilizing other health care resources that are available to serve all or a portion of the population proposed to be served by the project; and**
 - D) Other considerations.**
- 2) Documentation shall consist of a comparison of the project to alternative options. The comparison shall address issues of cost, patient access, quality and financial benefits in both the short term (within one to three years after project completion) and long term. This May vary by project or situation.**
- 3) The applicant shall provide empirical evidence, including quantified outcome data; that verifies improved quality of care, as available.”**

The applicant based its alternatives on geographical considerations. The applicant surveyed three sites in addition to the proposed site, and report upon each:

- 1. Alternative #1: Milwaukee Road, Wheeling**

The applicants rejected this alternative, citing poor access to public transportation and its patient base. The propose location also is not centrally located and has poor visibility for its patient population. **Estimated cost of this alternative: \$4,100,000.**

2. **Alternative #2: River Road, Mt. Prospect**

The applicants rejected this alternative, due to its limited access to its patient base and public transportation. This site was also located in a site of limited visibility, hindering patient access. **The applicant identified a cost totaling \$3,000,000 with this alternative.**

3. **Alternative #3: North Arlington Heights Road, Buffalo Grove**

The applicant rejected this alternative, due to limited access, poor site identity, and potential zoning problems with the Village of Buffalo Grove, which would delay construction schedules. The applicant feels any delays in the proposed project would prevent the delivery of much-needed services to the majority of the targeted population. **Identified cost of this alternative: \$5,000,000.**

4. **Alternative #4: Rand Road, Arlington Heights**

The applicant chose this alternative, based on its convenience and accessibility to its targeted population. The proposed site is accessible to public transportation, contains ample parking, and is zoned accordingly through the Village of Arlington Heights. **Identified cost of this alternative: \$3,879,057.**

VIII. **Project Scope and Size, Utilization and Unfinished/Shell Space – Review Criteria**

A. **Criterion 1110.234(a) - Size of Project**

The criterion states:

“The applicant shall document that the amount of physical space proposed for the project is necessary and not excessive. The proposed gross square footage (GSF) cannot exceed the GSF standards of Appendix B, unless the additional GSF can be justified by documenting one of the following:

- 1) Additional space is needed due to the scope of services provided, justified by clinical or operational needs, as supported by published data or studies;
- 2) The existing facility's physical configuration has constraints or impediments and requires an architectural design that results in a size exceeding the standards of Appendix B;
- 3) The project involves the conversion of existing bed space that results in excess square footage."

The applicants propose to establish a multi-specialty ASTC containing three procedure rooms, and six recovery stations. The total square footage of the proposed project is 7,700 GSF, and the entire space is classified as being clinical (See Table Four). The current State Board standard is 9,330 DGSF for three operating/procedure rooms, and six recovery stations (See Table Five). The applicants have met the requirements of this criterion.

TABLE FIVE Project #12-076 Chicago Surgical Clinic, Ltd. Arlington Heights					
Departments	Unit of Measure	State Standard/Unit of Measure	Proposed GSF	Difference	Meets Standards
ASTC	2 Surgical Suites 1 Procedure Room 6 Recovery Stations	2,750 DGSF/Treatment Room/ 180 GSF per Recovery Station/ 9,330 GSF Overall	7,700	(1,630)	Yes

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE SIZE OF PROJECT – REVIEW CRITERION (77 IAC 1110.234(A)).

B. Criterion 1110.234(b) Project Services Utilization

The criterion states:

"This criterion is applicable only to projects or portions of projects that involve services, functions or equipment for which HFPB has not established utilization standards or occupancy targets in 77 Ill. Adm. Code 1100. The applicant shall document that, in the second year of operation, the annual utilization of the service or equipment shall meet or exceed the utilization standards specified in Appendix B."

The State Board standard for ASTC utilization is 1,500 hours per operating/procedure room. The applicants project the following

occupancy rates for the second year after project completion. (See Table Six).

TABLE SIX			
Year	Projected Capacity*	State Standard	Standard Met?
2015	5,200 hrs/	4,500 hrs	Yes
*100% capacity: 1,500 hrs/surgery/procedure room			

THE STATE BOARD STAFF FINDS THE PROJECT APPEARS TO BE IN CONFORMANCE WITH THE PROJECT UTILIZATION CRITERION. - REVIEW CRITERION (77 IAC 1110.234(B)).

IX. Section 1110.1540 - Non-Hospital Based Ambulatory Surgery

A) Criterion 1110.1540(a) - Scope of Services Provided

Any applicant proposing to establish a non-hospital based ambulatory surgical category of service must detail the surgical specialties that will be provided by the proposed project and whether the project will result in a limited specialty or multi-specialty ambulatory surgical treatment center (ASTC).

The applicants are proposing to relocate a multi-specialty ASTC in Wheeling, and re-establish the facility in 7,700 GSF of space in Arlington Heights. The facility will consist of two ORs, one Procedure Room, and six recovery stations. The replacement facility will offer General, Oral/Maxillofacial, and endoscopic surgical services. The applicants have met the requirements of this criterion.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE SCOPE OF SERVICES PROVIDED CRITERION (77 IAC 1110.1540(a)).

B) Criterion 1110.1540 (b) - Target Population

Because of the nature of ambulatory surgical treatment, the State Board has not established geographic services areas for assessing need. Therefore, an applicant must define its intended geographic service area and target population. However, the intended geographic service area shall be no less than 30 minutes and no greater than 60 minutes travel time (under normal driving conditions) from the facility's site.

The applicants propose to establish a multi-specialty ASTC in Arlington Heights. This proposed service area encompasses 51 zip code areas, HSA 07, and suburban Cook County. The proposed GSA encompasses an area within 30 minutes in all directions. The applicants identified a population of approximately 1,580,510 people, according to census data obtained from www.city-data.com. The applicants have satisfied the requirements of this criterion

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE TARGET POPULATION CRITERION (77 IAC 1110.1540(b)).

C) Criterion 1110.1540 - Projected Patient Volume

- 1) The applicant must provide documentation of the projected patient volume for each specialty to be offered at the proposed facility. Documentation must include physician referral letters which contain the following information:**
 - A) the number of referrals anticipated annually for each specialty;**
 - B) for the past 12 months, the name and location of health care facilities to which patients were referred, including the number of patients referred for each surgical specialty by facility;**
 - C) a statement by the physician that the information contained in the referral letter is true and correct to the best of his/her information and belief; and**
 - D) the typed or printed name and address of the physician, his/her specialty and his/her notarized signature.**
- 2) Referrals to health care providers other than ambulatory surgical treatment centers (ASTC) or hospitals will not be included in determining projected patient volume. The applicant shall provide documentation demonstrating that the projected patient volume as evidenced by the physician referral letters is from within the geographic service area defined under subsection (b).**

The applicant supplied a table on page 155 that identifies the number of projected referrals to the proposed facility, based on referral letters from 18 area physicians. The table shows a total of 1,875 referrals to the facility

from these outside referring physicians. The applicant included the 18 letters from these physicians attesting to the fact that these numbers represent past patient referrals, and accurately reflect the number of anticipated patient referrals in the future. The applicants have met the requirements of this criterion.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE PROJECTED PATIENT VOLUME CRITERION (77 IAC 1110.1540(c)).

D) Criterion 1110.1540 (d) - Treatment Room Need Assessment

- 1) Each applicant proposing to establish or modernize a non-hospital based ambulatory surgery category of service must document that the proposed number of operating rooms are needed to serve the projected patient volume. Documentation must include the average time per procedure for the target population including an explanation as to how this average time per procedure was developed.
- 2) There must be a need documented for at least one fully utilized (1,500 hours) treatment room for a new facility to be established. Also, utilizing the formula the application must document the need for each treatment room proposed.

Based upon the information furnished by the applicants, the two proposed surgical suites, one procedure room and six recovery stations are needed to serve the projected patient volume. The applicants estimate the average length of time per procedure to be approximately 2 hours, to include prep and clean-up (application p. 178). Based on these findings, the applicants have met the requirements of this criterion.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE TREATMENT ROOM NEED ASSESSMENT CRITERION (77 IAC 1110.1540(d)).

E) Criterion 1110.1540 (e) - Impact on Other Facilities

An applicant proposing to change the specialties offered at an existing ASTC or proposing to establish an ASTC must document the impact the proposal will have on the outpatient surgical capacity of all other existing ASTCs and hospitals within the intended geographic service area and that the proposed project will not result in an unnecessary duplication of services or facilities. Documentation shall include any correspondence from such existing facilities regarding the impact of the

proposed project, and correspondence from physicians intending to refer patients to the proposed facility. Outpatient surgical capacity will be determined by the Agency, utilizing the latest available data from the Agency's annual questionnaires, and will be the number of surgery rooms for ASTCs and the number of equivalent outpatient surgery rooms for hospitals. Equivalent outpatient surgery rooms for hospitals are determined by dividing the total hours of a hospital's outpatient surgery by 1,500 hours. In addition to documentation submitted by the applicant, the State Agency shall review utilization data from annual questionnaires submitted by such health care facilities and data received directly from health facilities located within the intended geographic service area, including public hearing testimony.

The proposed surgery center will have two surgical suites, one procedure room, and six recovery stations. The proposed facility will offer surgical services identical to the existing facility in Wheeling, and the Wheeling facility will be converted to office space for administrative function. Board Staff identified 12 hospitals and 16 ASTCs in an adjusted 30-minute drive radius per 77 IAC 1100.510 (See Tables One and Two).

The applicants identified 7 hospitals and 11 ASTCs in the immediate service area, and sent impact letters to each. The application contains one response from Northwest Community Hospital, Arlington Heights Hospital, indicating the proposed project would negatively impact existing surgical services at their hospital.

Tables One and Two list the facilities within a 30-minute drive radius, as defined by Board Staff. Of the 12 hospitals, 5 (41.6%), have surgical services not operating at the State Board's target occupancy (See Table One). Table Two lists the ASTCs in the service area, and it is noted that 13 of the 16 (81.2%), ASTC's are not operating at the State Board's target occupancy. Board Staff notes that 4 of the 13 underperforming ASTCs are newly established, and are not reporting utilization data (See Table 2). Board Staff notes the applicant identified a population that appears to be underserved and has limited access to surgical services. However, there appear to be underperforming facilities in the service area, and a positive finding cannot be made for this criterion.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT DOES NOT APPEAR TO BE IN CONFORMANCE WITH THE IMPACT ON OTHER FACILITIES CRITERION (77 IAC 1110.1540(e)).

F) Criterion 1110.1540 (f) - Establishment of New Facilities

Any applicant proposing to establish an ambulatory surgical treatment center will be approved only if one of the following conditions exists:

- 1) There are no other ASTCs within the intended geographic service area of the proposed project under normal driving conditions; or**
- 2) All of the other ASTCs and hospital equivalent outpatient surgery rooms within the intended geographic service area are utilized at or above the 80% occupancy target; or**
- 3) The applicant can document that the facility is necessary to improve access to care. Documentation shall consist of evidence that the facility will be providing services which are not currently available in the geographic service area, or that existing underutilized services in the geographic service area have restrictive admission policies; or**
- 4) The proposed project is a co-operative venture sponsored by two or more persons at least one of which operates an existing hospital. The applicant must document:**
 - A) that the existing hospital is currently providing outpatient surgery services to the target population of the geographic service area;**
 - B) that the existing hospital has sufficient historical workload to justify the number of operating rooms at the existing hospital and at the proposed ASTC based upon the Treatment Room Need Assessment methodology of subsection (d) of this Section;**
 - C) that the existing hospital agrees not to increase its operating room capacity until such time as the proposed project's operating rooms are operating at or above the target utilization rate for a period of twelve full months; and**
 - D) that the proposed charges for comparable procedures at the ASTC will be lower than those of the existing hospital.**

The applicants propose to relocate an existing multi-specialty ASTC in Wheeling, and establish a replacement facility 6.8 miles away in Arlington Heights. The new facility will have two surgical suites, one procedure

room, and six recovery stations. The replacement facility is designed to improve patient access to surgical care by providing said services in a more accessible facility, in an environment conducive to modern life/safety codes and standards. The existing facility in Wheeling will be re-utilized as administrative/office space.

Board Staff has found that there are underperforming hospitals and ASTC's within the geographic service area. Although the facility will replace an aged facility and offer the same services, a negative finding has been made for this criterion.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT DOES NOT APPEAR TO BE IN CONFORMANCE WITH THE ESTABLISHMENT OF NEW FACILITIES CRITERION (77 IAC 1110.1540(f)).

G) Criterion 1110.1540 (g) - Charge Commitment

In order to meet the purposes of the Act which are to improve the financial ability of the public to obtain necessary health services and to establish a procedure designed to reverse the trends of increasing costs of health care, the applicant shall include all charges except for any professional fee (physician charge). [20 ILCS 3960/2] The applicant must provide a commitment that these charges will not be increased, at a minimum, for the first two years of operation unless a permit is first obtained pursuant to 77 Ill. Adm. Code 1130.310(a).

The applicants provided a list of all procedures to be performed at the proposed facility, with the associated charge for each procedure (application pg. 205). The applicant provided signed attestation to maintain the listed charges for a minimum of two years following project completion. (Application pg. 206).

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE CHARGE COMMITMENT CRITERION (77 IAC 1110.1540(g)).

IX. Review Criteria - Financial Feasibility

If an applicant has not documented a bond rating of "A" or better (pursuant to Section 1120.120), or if one of the three following conditions do not exist:

1. All of the projects capital expenditures are completely funded through internal sources.

2. The applicant's current debt financing or projected debt financing is insured or anticipated to be insured by MBIA (Municipal Bond Insurance Association Inc.) or equivalent.
3. The applicant provides a third party surety bond or performance bond letter of credit from an A rated guarantor.

The applicant must address the review criteria in this Section.

X. Criterion 1120.120 - Availability of Funds

The applicant shall document that financial resources shall be available and be equal to or exceed the estimated total project cost plus any related project costs by providing evidence of sufficient financial resources.

According to the applicant they are funding the project with cash and securities totaling \$1,510,057, cash expenditures/outlay totaling \$119,000, net book value of existing equipment totaling \$250,000, and loans/mortgages totaling \$2,000,000. The applicant provided reviewed financial statements prepared by Warady & Davis, LLP, C.P.A., and a letter of interest from Citibank NA, Buffalo Grove, on page 208 of the application.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE AVAILABILITY OF FUNDS CRITERION (77 IAC 1120.120 (a)).

XI. 1120.130 - Financial Feasibility

A. Criterion 1120.130 - Financial Viability

Financial Viability Waiver

The applicant is NOT required to submit financial viability ratios if:

- 1) all project capital expenditures, including capital expended through a lease, are completely funded through internal resources (cash, securities or received pledges); or

HFSRB NOTE: Documentation of internal resources availability shall be available as of the date the application is deemed complete.

- 2) the applicant's current debt financing or projected debt financing is insured or anticipated to be insured by Municipal Bond Insurance Association Inc. (MBIA), or its equivalent; or

HFSRB NOTE: MBIA Inc is a holding company whose subsidiaries provide financial guarantee insurance for municipal bonds and structured financial projects. MBIA coverage is used to promote credit enhancement as MBIA would pay the debt (both principal and interest) in case of the bond issuer's default.

- 3) the applicant provides a third-party surety bond or performance bond letter of credit from an A rated guarantor (insurance company, bank or investing firm) guaranteeing project completion within the approved financial and project criteria.

The applicant is funding this project with cash and securities in the amount of \$1,510,057, mortgages totaling \$2,000,000, cash expenditures/outlay totaling \$119,000, and net book value of existing equipment totaling \$250,000. The applicants have provided audited financial statements and have provided the financial ratios as required. Chicago Surgical Clinic, Ltd. has not met debt service coverage and cushion ratios for **2009 and 2010**. Based on these findings, a positive finding cannot be made.

TABLE SEVEN Financial Ratios Chicago Surgical Clinic, Ltd. Arlington Heights					
	Standard	2009	2010	2011	2014
Current Ratio	1.5	43.6	31.9	70.5	145.1
Net Profit Margin	2.5	15.3%	12.2%	19%	19.4%
Long term Debt to Capitalization	<80%	.056%	1.07%	4.51%	37.45%
Debt Service Coverage	>1.75	1.64	1.46	2.75	10.47
Days of Cash on Hand	>45	103.6	96	137	185
Cushion Ratio	>3	2.5	2.74	4.37	5.4

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT DOES NOT APPEAR TO BE IN CONFORMANCE WITH THE FINANCIAL FEASIBILITY CRITERION (77 IAC 1120.130 (a)).

XII. Section 1120.140 - Economic Feasibility

A. Criterion 1120.140(a) - Reasonableness of Financing Arrangements

The applicant shall document the reasonableness of financing arrangements by submitting a notarized statement signed by an authorized representative that attests to one of the following:

- 1) That the total estimated project costs and related costs will be funded in total with cash and equivalents, including investment securities, unrestricted funds, received pledge receipts and funded depreciation; or
- 2) That the total estimated project costs and related costs will be funded in total or in part by borrowing because:
 - A) A portion or all of the cash and equivalents must be retained in the balance sheet asset accounts in order to maintain a current ratio of at least 2.0 times for hospitals and 1.5 times for all other facilities; or
 - B) Borrowing is less costly than the liquidation of existing investments, and the existing investments being retained may be converted to cash or used to retire debt within a 60-day period.

According to the applicant they are funding the project with cash and securities totaling \$1,510,057, cash expenditures/outlay totaling \$119,000, net book value of existing equipment totaling \$250,000, and loans/mortgages totaling \$2,000,000. The applicant provided audited financial statements prepared by Warady & Davis, LLP, C.P.A., and a letter of interest from Citibank NA, Buffalo Grove, on page 208 of the application.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE REASONABLE OF FINANCING ARRANGEMENTS CRITERION (77 IAC 1120.140 (a)).

B. Criterion 1120.140(b) - Terms of Debt Financing

This criterion is applicable only to projects that involve debt financing. The applicant shall document that the conditions of debt financing are reasonable by submitting a notarized statement signed by an authorized representative that attests to the following, as applicable:

- 1) That the selected form of debt financing for the project will be at the lowest net cost available;
- 2) That the selected form of debt financing will not be at the lowest net cost available, but is more advantageous due to such terms as

prepayment privileges, no required mortgage, access to additional indebtedness, term (years), financing costs and other factors;

3) That the project involves (in total or in part) the leasing of equipment or facilities and that the expenses incurred with leasing a facility or equipment are less costly than constructing a new facility or purchasing new equipment.

According to the applicant they are funding the project with cash and securities totaling \$1,510,057, cash expenditures/outlay totaling \$119,000, net book value of existing equipment totaling \$250,000, and loans/mortgages totaling \$2,000,000. The applicant provided audited financial statements prepared by Warady & Davis, LLP, C.P.A., and a letter of interest from Citibank NA, Buffalo Grove, on page 208 of the application.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT DOES APPEARS TO BE IN CONFORMANCE WITH THE TERMS OF DEBT FINANCING ARRANGEMENTS CRITERION (77 IAC 1120.140 (b)).

C. Criterion 1120.140(c) - Reasonableness of Project Cost

The applicant shall document that the estimated project costs are reasonable and shall document compliance with the State Board's standards as detailed in 77 IAC 1120.

Preplanning Costs - These costs total \$11,000, or .48% of new construction, contingency, and equipment costs. This appears reasonable compared to the State standard of 1.8%.

Site Survey & Soil Investigation/Site Preparation - The costs total \$58,000, or 3.2% of the new construction/contingency costs. This appears reasonable compared to the State Standard of 5%.

New Construction and Contingencies - These costs total \$1,800,000 or \$233.76 per gross square feet. ($\$1,800,000 / 7,700 \text{ GSF} = \$233.76 / \text{GSF}$) This appears **reasonable** when compared to the State Board standard of \$337.33/GSF.

Contingencies - These costs total \$300,000. These costs are 20% of new construction costs. This appears **high** when compared to the State Board standard of 7% of new construction costs.

Architect and Engineering Fees – These costs total \$265,000 or 14.7% of new construction and contingency costs. This appears **high** when compared to the State Board standard of 7.06% – 10.6% of new construction and contingency costs.

Consulting and Other Fees – These costs total \$165,000. The State Board does not have a standard for these costs.

Moveable Equipment/New Equipment - These costs total \$456,157 or \$152,052 per room. This appears reasonable when compared to the State Board standard of \$353,802.

Net Interest Expense During Construction – These costs total \$60,000. The State Board does not have a standard for these costs.

Acquisition of Building or Other Property - These costs are \$770,000. The State Board does not have a standard for these costs.

Other Costs to be Capitalized – These costs total \$293,900. The State Board does not have a standard for these costs.

Each of the identified costs listed above is for clinical considerations only. The applicant has exceeded the acceptable State Standards for Contingencies and Architectural and Engineering Fees. Therefore, a positive finding cannot be made for this criterion.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT DOES NOT APPEAR TO BE IN CONFORMANCE WITH THE REASONABLENESS OF PROJECT COST CRITERION (77 IAC 1120.140 (c)).

D) Criterion 1120.140 (d) - Projected Operating Costs

The applicant shall provide the projected direct annual operating costs (in current dollars per equivalent patient day or unit of service) for the first full fiscal year at target utilization but no more than two years following project completion. Direct cost means the fully allocated costs of salaries, benefits and supplies for the service.

The applicants anticipate the total operating costs to be \$5,624,000. Board Staff notes this figure was not broken down per treatment. The State Board does not have a standard for these costs.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE PROJECT DIRECT OPERATING COSTS CRITERION (77 IAC 1120.140 (d)).

E) Criterion 1120.140 (e) - Total Effect of the Project on Capital Costs

The applicant shall provide the total projected annual capital costs (in current dollars per equivalent patient day) for the first full fiscal year at target utilization but no more than two years following project completion.

The applicants anticipate the total effect of the Project on Capital Cost to be \$1,450,000. Board Staff notes this figure was not broken down per treatment. The State Board does not have a standard for these costs.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE TOTAL EFFECT OF THE PROJECT ON CAPITAL COSTS CRITERION (77 IAC 1120.140 (e)).

12-076 Chicago Surgical Clinic, Ltd. - Arlington Heights

